

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Algonac	County St. Clair
Audit Date 6/30/04	Opinion Date 9/23/04	Date Accountant Report Submitted to State: 12/8/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave.	City Port Huron	State Mi	ZIP
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date 12-8-04	

CITY OF ALGONAC, MICHIGAN

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF ALGONAC, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Algonac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Algonac, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Algonac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Algonac, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the basis financial statements, the City and its component unit adopted Governmental Accounting Standards Board Statement No. 34 and related statements as of and for the year ended June 30, 2004. This resulted in a change in the City's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2004 on our consideration of the City of Algonac's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 38 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Algonac's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Stewart, Beavers & Whipple".

Certified Public Accountants

September 23, 2004

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2004

This section of the City of Algonac's annual financial report presents our discussion and analysis of the City's financial performance during the year. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements, representing the City of Algonac's financial performance during the fiscal year ended June 30, 2004. The statement of net assets and the statement of activities provide information about the activities of the City of Algonac on a government-wide basis. They are designed to present a longer-term view of the City's finances and resources. Fund financial statements follow the above-mentioned statements and illustrate the how the services provided by the City were financed in the short term, and future amounts that remain for spending to provide for those services. Additionally, fund financial statements report the City's operations in more detail than government-wide financial statements.

The City of Algonac as a Whole

The City's combined net assets increased 3.6 percent from a year ago, increasing from \$14.0 million to \$14.5 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$298,000 or 6.3 percent during the fiscal year ended June 30, 2004. This increase was primarily the result of diligence in the area of expenditure control and disciplined practices within the City. The business related activities experienced a \$180,000 or 1.9 percent increase in net assets. This was primarily due to various capital acquisitions and infrastructure improvements throughout the fiscal year.

In a condensed format, the table below shows the comparison of net assets (in thousands of dollars) as of June 30, 2004:

	Governmental Activities	Business Type Activities	Total
Assets			
Current and other assets	\$ 2,716,704	\$ 1,291,799	\$ 4,008,503
Capital assets	2,693,603	12,313,647	15,007,250
Total assets	5,410,307	13,605,446	19,015,753
Liabilities			
Current liabilities	253,209	386,533	639,742
Long-term liabilities	133,792	3,722,318	3,856,110
Total liabilities	387,001	4,108,851	4,495,852
Net Assets			
Invested in property and equip. -			
Net of related debt	2,668,280	8,438,277	11,106,557
Restricted	27,661	202,708	230,369
Unrestricted	2,327,365	855,610	3,182,975
Total net assets	\$ 5,023,306	\$ 9,496,595	\$ 14,519,901

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2004

Unrestricted net assets for the governmental activities, which is part of net assets that is available to finance day-to-day activities and potential future growth, was approximately \$2.3 million for the year ended June 30, 2004.

The following table presents the changes in net assets for the year ended June 30, 2004:

Revenue

Program revenue:

Charges for services	\$ 381,539	\$ 1,418,227	\$ 1,799,766
Operating grants and Contributions	353,285	-	353,285
Capital Grants and Contributions	464,241	-	464,241

General revenue:

Property taxes	1,190,522	293,762	1,484,284
Unrestricted Grants and Contributions	467,837	-	467,837
Investment Income	26,826	15,073	41,899
Gain on Sale of Capital Assets	<u>656</u>	<u>-</u>	<u>656</u>

Total revenue	<u>2,884,906</u>	<u>1,727,062</u>	<u>4,611,968</u>
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Functions/Program Expenses

General Government	328,652	-	328,652
Public Safety	1,191,282	-	1,191,282
Public Works	721,526	-	721,526
Recreation and Culture	223,501	-	223,501
Other Activities	120,689	-	120,689
Interest on Long Term Debt	1,879	-	1,879
Water and Sewer	<u>-</u>	<u>1,546,752</u>	<u>1,546,752</u>

Total expenses	<u>2,587,529</u>	<u>1,546,752</u>	<u>4,134,281</u>
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Increase in Net Assets	297,377	180,310	477,687
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Net Assets - Beginning of year	<u>4,725,929</u>	<u>9,316,285</u>	<u>14,042,214</u>
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Net Assets - End of year	<u>\$ 5,023,306</u>	<u>\$ 9,496,595</u>	<u>\$ 14,519,901</u>
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City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2004

Governmental Activities

Revenue's for the City's governmental activities totaled approximately \$2,885,000. These revenue funds were utilized to provide essential municipal services such as public safety, public works, and street maintenance activities.

Public safety department expenditures accounted for approximately 46% of the governmental activities operational expenditures. The public works and recreation and cultural departments represented 37%, while general and administrative costs totaled 13% of the governmental activities operating costs.

During the year, the City maintained the ability to meet the actuarial required contributions for the employees defined benefit pension plan and has begun to set aside funding for future retiree health care benefits. This is important for the City because future taxpayers should not be required to fund payments that were earned prior to them acquiring residence in the City.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water to all of our residents, as well as distributing the water to Clay Township. The water rate has only seen one increase in the past three years from \$2.20 to \$3.25/thousand gallons. During the fiscal year 2004, the water and sewer systems saw approximately a 1.5 percent increase in the volume of water consumed and sewage treated which reflects in the increase revenues stated as Charges for Services.

Water and Sewer revenues for the current year totaled \$1,727,062 compared to \$1,608,698 for the fiscal year ended June 30, 2003. These revenues provided for principal and interest payments of \$467,631 for the City's outstanding Water and Sewer bonds. The balance was used to provide for routine operational and maintenance costs to provide service to the residents, as well as, day-to-day operational costs.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage City's money for specific purposes as well as show accountability for certain activities. The City's major funds for 2004 include the General Fund, and the Major Street Fund. The General Fund, specified previously is the fund through which all day-to-day activities are performed. The Major Street fund is used to provide for the tracking of State of Michigan Act 51 major and local road revenue sharing.

The General Fund accounts for most of the City's governmental services. The most significant of these are the police and fire services, which incurred expenditures of approximately \$1 million in 2004. The general operating millage levied by the City supports these services. Transfers from other funds, Federal or State grants, and debt issuance proceeds support these funds. The Capital Improvement Fund in fiscal 2004 had no activity relating to major capitol improvement projects.

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2004

In the Major Street fund expenditures exceeded revenues by approximately \$170,000, which was due primarily to the changes in the reimbursement process by the State in accordance with the original Smith Street project parameters and guidelines. The project was a 80%-20% split for expenditures incurred to complete the Smith Street project from the State and City respectively.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget as we attempt to deal with unexpected changes in revenues and expenditures and unanticipated events that occur throughout the course of the year. The City is required by State law to amend the budget to ensure that expenditures do not exceed appropriations.

There were three revisions to the original 2003-2004 budget. In December 2003, Council amended the budget to increase Fire Department capital expenditures of \$28,461, with the associated revenue to come from the City's unappropriated surplus. The second budget amendment was to revise the revenues for the decrease in State funding, and to increase revenues and expenditures associated with the acquisition and operating of the pool. Other minor miscellaneous General Fund line item adjustments were made to compensate for changes since the budget was proposed. The final budget amendment was made to increase the City's portion of their contribution to the Downriver Recreation Commission.

Overall, we were generally pleased that the expenditures exceeded revenues by approximately \$224,000 compared to the anticipated \$347,396 in the original 2003-2004 budget. This was attributed to the greater physical restraint performed on behalf of management who were able to control and monitor the department spending and found ways to decrease their discretionary costs.

Capital Asset and Debt Administration

As of June 30, 2004, the City had \$2,693,603 invested in a wide range of capital assets including land, buildings, police and fire equipment, computer equipment, and water and sewer equipment & lines.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 310,559	\$ -	\$ 310,559
Construction	464,241	928,755	1,392,996
Buildings & Bldg Improvements	1,326,569	-	1,326,569
Machinery & Equipment	89,732	42,304	132,036
Water/Sewer Plants & System	-	11,342,588	11,342,588
Infrastructure	294,563	-	294,563
Licensed Vehicles	<u>207,939</u>	<u>-</u>	<u>207,939</u>
Total Capital Assets	<u>\$ 2,693,603</u>	<u>\$ 12,313,647</u>	<u>\$ 15,007,250</u>

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2004

Debt reported in these financial statements is related to the construction and maintenance projects associated with the Water Plant, which are reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information). During the year the City did not borrow any additional funds in order to acquire new equipment or take on additional maintenance projects.

Economic Factors and Next Year's Budget and Rates

Since 1987, excluding the current fiscal year ending June 30, 2004, the City has reduced its property tax millage rate from 64.0446 mills to 33.8384 mills for the 2003 fiscal year, which includes the millages that are levied for all local units. This reduction represents a 47% decrease during that time period, with a .43 mill increase in fiscal 2004. Strong expenditure controls and past growth in the City's tax base have helped to accomplish this planned millage rate reduction. Property taxes make up 56 percent of the General Fund budget. Because of Proposal A, which limits the growth on existing property to the rate of inflation, and due to a lessening of new development and growth in the City, future tax reductions will become more difficult as they were experienced in the current year. These factors along with decreases in revenues from interest on investments and other economic factors have lessened the City's ability to reduce property taxes.

The City has been able to maintain relatively low personnel costs and acquired many new employees to establish an efficient labor force to better serve the City. We do anticipate further increases in pension fund contributions due to the declines experienced with the stock and bond markets. In addition, we expect a continued increase in medical costs. Despite these increased costs, our expenditure increases are anticipated to average between 2 to 3% per year. The City will adjust expenses to mirror the revenue base ensuring the continuation of providing a high level of service expected by the community.

In the case of many surrounding cities of whom rely on the City of Detroit water supply, they are experiencing large increases in water rates over the past few years due to the City of Detroit who supply's a large portion of this areas water supply has forecasted on average a 10 percent increase annually for the next three to five years. We feel we are very fortunate by producing and purifying our own water to pass on the lowest rates as possible, while still supporting and maintaining the facilities in order to prepare the water, to our residents. Although, our water rate charge per thousand gallons of usage has increased once over the past 3 years of \$1.05/thousand gallons in September 2003.

The City has been proactive in preparing for the additional cuts in revenues sources which are apparent to occur in the upcoming years, from the Statutory State Share Revenue funds that we receive each year. It is expected for the Statutory State Shared Revenue to decrease from approximately \$140,000 to \$103,000 in the fiscal year 2004-2005. We have been taking action to enable our general operations to function with the possibility of further cuts in our State Shared Revenues sources in the future.

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2004

With the projected and continued increases in the future related to energy and health care costs, will only cause the City to continually monitor General Fund expenditures to assure that revenues are aligned with expenditures to assure that our Net Assets are protected. This is management's goal to our employees and residents to strive to function in an efficient and effective manor to protect our underlying assets and give the highest quality of service to all.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any question about this report or need additional information, we invite you to contact the administrative offices at city hall.

BASIC FINANCIAL STATEMENTS

CITY OF ALGONAC, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 2,082,371	\$ 825,362	\$ 2,907,733	\$ 18,617
Receivables	72,998	190,497	263,495	-
Due from other governmental units	194,834	42,216	237,050	-
Prepaid expenditures/deposits	39,916	6,294	46,210	-
Inventory	395	-	395	-
Internal balances	42,488	(42,488)	-	-
Advance (from) to other funds	283,702	(283,702)	-	-
Restricted Assets -				
Cash	-	449,125	449,125	-
Investments		33,801	33,801	-
Net deposits with St. Clair County		70,694	70,694	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	774,800	928,755	1,703,555	-
Assets being depreciated	1,918,803	11,384,892	13,303,695	-
Total Assets	<u>5,410,307</u>	<u>13,605,446</u>	<u>19,015,753</u>	<u>18,617</u>
LIABILITIES:				
Accounts payable	164,250	146,223	310,473	-
Accrued liabilities	69,015	9,745	78,760	-
Accrued interest	1,062	-	1,062	-
Advances and deposits	17,200	-	17,200	-
Deferred revenue	1,682	-	1,682	-
Liabilities payable from restricted assets	-	230,565	230,565	-
Non-current liabilities				
Due within one year	13,422	-	13,422	-
Due in more than one year	120,370	3,722,318	3,842,688	-
Total Liabilities	<u>387,001</u>	<u>4,108,851</u>	<u>4,495,852</u>	<u>-</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	2,668,280	8,438,277	11,106,557	-
Restricted				
Acquisition/construction of capital assets	27,661	202,708	230,369	-
Unrestricted	<u>2,327,365</u>	<u>855,610</u>	<u>3,182,975</u>	<u>18,617</u>
Total Net Assets	<u>\$ 5,023,306</u>	<u>\$ 9,496,595</u>	<u>\$ 14,519,901</u>	<u>\$ 18,617</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 328,652	\$ 152,984	\$ -	\$ -
Public Safety	1,191,282	16,961	4,283	-
Public Works	721,526	197,863	301,335	464,241
Recreation and Culture	223,501	13,731	47,667	-
Other Activities	120,689	-	-	-
Interest on Long Term Debt	1,879	-	-	-
Total governmental activities	<u>2,587,529</u>	<u>381,539</u>	<u>353,285</u>	<u>464,241</u>
Business type activities				
Water Supply System	1,039,442	894,459	-	-
Wastewater	507,310	523,768	-	-
Total business type activities	<u>1,546,752</u>	<u>1,418,227</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>4,134,281</u>	<u>1,799,766</u>	<u>353,285</u>	<u>464,241</u>
Component Unit				
Downtown Development Authority	<u>739</u>	<u>87</u>	<u>-</u>	<u>-</u>

General revenues:

- Property taxes
- Grants and contribution not -
- restricted to specific programs
- Unrestricted investment income
- Gain on sale of fixed assets
- Total general revenues and transfers

Change in net assets

Net assets at beginning of year as restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Governmental Activities	Primary Government		Component Unit
	Business Type Activities	Total	
\$ (175,668)	\$ -	\$ (175,668)	\$ -
(1,170,038)	-	(1,170,038)	-
241,913	-	241,913	-
(162,103)	-	(162,103)	-
(120,689)	-	(120,689)	-
(1,879)	-	(1,879)	-
<u>(1,388,464)</u>	<u>-</u>	<u>(1,388,464)</u>	<u>-</u>
-	(144,983)	(144,983)	-
-	16,458	16,458	-
<u>-</u>	<u>(128,525)</u>	<u>(128,525)</u>	<u>-</u>
<u>(1,388,464)</u>	<u>(128,525)</u>	<u>(1,516,989)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(652)</u>
1,190,522	293,762	1,484,284	12,683
467,837	-	467,837	-
26,826	15,073	41,899	89
656	-	656	-
<u>1,685,841</u>	<u>308,835</u>	<u>1,994,676</u>	<u>12,772</u>
297,377	180,310	477,687	12,120
<u>4,725,929</u>	<u>9,316,285</u>	<u>14,042,214</u>	<u>6,497</u>
<u>\$ 5,023,306</u>	<u>\$ 9,496,595</u>	<u>\$ 14,519,901</u>	<u>\$ 18,617</u>

CITY OF ALGONAC, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Major Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,367,876	\$ 291,295	\$ 423,200	\$ 2,082,371
Receivables -				
Accounts	71,615	-	-	71,615
Taxes	1,383	-	-	1,383
Due from other governmental units -				
State	145,752	35,193	13,889	194,834
Due from other funds	42,488	-	-	42,488
Inventory	395	-	-	395
Prepaid expense	39,916	-	-	39,916
Advance to other funds	283,702	-	-	283,702
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,953,127</u>	<u>\$ 326,488</u>	<u>\$ 437,089</u>	<u>\$ 2,716,704</u>
Liabilities:				
Accounts payable	\$ 36,434	\$ 122,726	\$ 5,090	\$ 164,250
Accrued liabilities	68,340	608	67	69,015
Deposits	17,200	-	-	17,200
Deferred revenue	1,682	-	-	1,682
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>123,656</u>	<u>123,334</u>	<u>5,157</u>	<u>252,147</u>
Fund Balances:				
Reserved -	324,013	-	27,661	351,674
Unreserved -				
Designated	355,553	-	-	355,553
Undesignated				
General Fund	1,149,905	-	-	1,149,905
Special Revenue Funds	-	203,154	404,271	607,425
Total Equity	<u>1,829,471</u>	<u>203,154</u>	<u>431,932</u>	<u>2,464,557</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Equity	<u>\$ 1,953,127</u>	<u>\$ 326,488</u>	<u>\$ 437,089</u>	<u>\$ 2,716,704</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund Balances - total governmental funds		\$	2,464,557
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			5,464,526
Accumulated depreciation		(2,770,923)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease payable	(25,323)	
Accrued interest	(1,062)	
Accrued compensated absences	(108,469)	(134,854)
Net Assets of governmental activities		\$	<u>5,023,306</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ALGONAC, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General	Major Street	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,190,522	\$ -	\$ -	\$ 1,190,522
Licenses and permits	40,886	-	-	40,886
Intergovernmental -				
Federal/State	450,235	671,484	94,092	1,215,811
Local	47,667	-	-	47,667
Charges for services	239,196	-	-	239,196
Fines and forfeits	16,961	-	-	16,961
Interest and rent	79,716	3,976	3,402	87,094
Other	46,769	-	-	46,769
Total Revenues	<u>2,111,952</u>	<u>675,460</u>	<u>97,494</u>	<u>2,884,906</u>
Expenditures:				
Current -				
General Government	371,188	-	-	371,188
Public Safety	1,176,215	-	-	1,176,215
Public Works	525,453	846,902	74,856	1,447,211
Recreation and Cultural	161,480	-	-	161,480
Other	120,689	-	-	120,689
Debt Service				
Principal	14,133	-	-	14,133
Interest	817	-	-	817
Total Expenditures	<u>2,369,975</u>	<u>846,902</u>	<u>74,856</u>	<u>3,291,733</u>
Excess of revenues over (under) expenditures	<u>(258,023)</u>	<u>(171,442)</u>	<u>22,638</u>	<u>(406,827)</u>
Other Financing Sources (Uses):				
Capital lease proceeds	34,308	-	-	34,308
Transfers from other funds	-	4,280	-	4,280
Transfers to other funds	-	-	(4,280)	(4,280)
Total Other Financing Sources (Uses)	<u>34,308</u>	<u>4,280</u>	<u>(4,280)</u>	<u>34,308</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(223,715)</u>	<u>(167,162)</u>	<u>18,358</u>	<u>(372,519)</u>
Fund Balances at beginning of year	1,937,144	370,316	413,574	2,721,034
Prior period adjustment	<u>116,042</u>	<u>-</u>	<u>-</u>	<u>116,042</u>
Fund Balance at beginning of year as restated	<u>2,053,186</u>	<u>370,316</u>	<u>413,574</u>	<u>2,837,076</u>
Fund Balances at end of year	<u>\$ 1,829,471</u>	<u>\$ 203,154</u>	<u>\$ 431,932</u>	<u>\$ 2,464,557</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2004**

Net change in fund balances - total governmental funds	\$(372,519)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	876,595
Depreciation expense	(173,157)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Capital lease proceeds	(34,308)
Principal payments on long term liabilities	14,133

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in accrued interest payable	(1,062)	
Increase in accrued compensated absences	(12,305)	(13,367)

Change in net assets of governmental activities	\$	<u>297,377</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF ALGONAC, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004**

	<u>Business Type Activities-Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 625,025	\$ 200,337	\$ 825,362
Receivables	88,458	102,039	190,497
Prepaid expenses/deposits	6,294	-	6,294
Due from other governmental units	42,216	-	42,216
Total Current Assets	<u>761,993</u>	<u>302,376</u>	<u>1,064,369</u>
Restricted Assets:			
Cash	315,276	133,849	449,125
Investments	33,801	-	33,801
Net deposits with St. Clair County	1,877	68,817	70,694
Total Restricted Assets	<u>350,954</u>	<u>202,666</u>	<u>553,620</u>
Property, Plant and Equipment:			
Property, plant and equipment	11,910,578	5,063,260	16,973,838
Less - accumulated depreciation	(2,414,211)	(2,245,980)	(4,660,191)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>9,496,367</u>	<u>2,817,280</u>	<u>12,313,647</u>
Total Assets	<u>10,609,314</u>	<u>3,322,322</u>	<u>13,931,636</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	73,183	73,040	146,223
Accrued liabilities	8,447	1,298	9,745
Due to other funds	42,488	-	42,488
Advance from other funds (current portion)	-	12,950	12,950
Total Current Liabilities	<u>124,118</u>	<u>87,288</u>	<u>211,406</u>
Current Liabilities - Payable From Restricted Assets:			
Bonds payable (current portion)	139,500	59,208	198,708
Interest payable	19,603	12,254	31,857
	<u>159,103</u>	<u>71,462</u>	<u>230,565</u>
Long-Term Liabilities (less current portions):			
Accrued vacation and sick	45,656	-	45,656
Advance from other funds	-	270,752	270,752
Bonds payable (net of current portion)	2,572,850	1,103,812	3,676,662
Total Long-Term Liabilities	<u>2,618,506</u>	<u>1,374,564</u>	<u>3,993,070</u>
Total Liabilities	<u>2,901,727</u>	<u>1,533,314</u>	<u>4,435,041</u>
NET ASSETS:			
Investment in capital assets, net	6,784,017	1,654,260	8,438,277
Restricted	202,708	-	202,708
Unrestricted			
Designated	34,500	10,500	45,000
Undesignated	686,362	124,248	810,610
Total Net Assets	<u>\$ 7,707,587</u>	<u>\$ 1,789,008</u>	<u>\$ 9,496,595</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds		Total
	Water	Sewer	
Operating Revenues:			
Charges for services	\$ 794,179	\$ 475,395	\$ 1,269,574
Other	15,201	123	15,324
Total Operating Revenues	<u>809,380</u>	<u>475,518</u>	<u>1,284,898</u>
Operating Expenses:			
Sewage treatment	-	280,788	280,788
Water treatment and supply - Production	453,211	-	453,211
Water treatment and supply - Transmission	86,515	-	86,515
General and administrative	169,479	88,164	257,643
Depreciation	254,956	84,876	339,832
Total Operating Expenses	<u>964,161</u>	<u>453,828</u>	<u>1,417,989</u>
Operating Income (Loss)	<u>(154,781)</u>	<u>21,690</u>	<u>(133,091)</u>
Non-Operating Revenues (Expenses):			
Property taxes levied for debt service	82,350	211,412	293,762
User charges for debt	74,279	46,650	120,929
Tap in fees	10,800	1,600	12,400
Interest earned	9,649	5,424	15,073
Interest expenses	(75,281)	(53,482)	(128,763)
Total Non-Operating Revenues	<u>101,797</u>	<u>211,604</u>	<u>313,401</u>
Net Income (Loss)	<u>(52,984)</u>	<u>233,294</u>	<u>180,310</u>
Net Assets at beginning of year	7,927,963	1,555,714	9,483,677
Prior Period Adjustment	<u>(167,392)</u>	<u>-</u>	<u>(167,392)</u>
Net Assets at beginning of year as restated	<u>7,760,571</u>	<u>1,555,714</u>	<u>9,316,285</u>
Net Assets end of year	<u>\$ 7,707,587</u>	<u>\$ 1,789,008</u>	<u>\$ 9,496,595</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds		
	Water	Sewer	Total
Cash Flows From Operating Activities:			
Cash receipts from customers	\$ 781,839	\$ 448,266	\$ 1,230,105
Cash payments to suppliers	(352,754)	(324,371)	(677,125)
Cash payments to employees	(299,507)	(24,304)	(323,811)
Net Cash Provided by Operating Activities	<u>129,578</u>	<u>99,591</u>	<u>229,169</u>
Cash Flows From Capital and Related Financing Activities:			
Bond payments -			
Principal	(134,750)	(196,002)	(330,752)
Interest	(76,255)	(60,623)	(136,878)
Property taxes levied for debt service	82,350	211,412	293,762
Deposits with St. Clair County	268	-	268
Advance from general fund	-	(8,348)	(8,348)
Debt service revenue	74,279	46,650	120,929
Equipment replacement	(55,080)	-	(55,080)
Tap in fees	10,800	1,600	12,400
Acquisition and construction of capital assets	(107,782)	-	(107,782)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(206,170)</u>	<u>(5,311)</u>	<u>(211,481)</u>
Cash Flows From Investing Activities:			
Redemption of investments	448	-	448
Interest earned	9,649	5,424	15,073
Net Cash Provided by Investing Activities	<u>10,097</u>	<u>5,424</u>	<u>15,521</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(66,495)	99,704	33,209
Cash and Cash Equivalents at Beginning of Year	<u>1,006,796</u>	<u>234,482</u>	<u>1,241,278</u>
Cash and Cash Equivalents at End of Year	<u>\$ 940,301</u>	<u>\$ 334,186</u>	<u>\$ 1,274,487</u>
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss) for the year	\$(154,781)	\$ 21,690	\$(133,091)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -			
Depreciation	254,956	84,876	339,832
Change in assets and liabilities:			
Receivable	5,273	(27,252)	(21,979)
Prepays and deposits	(4,069)	-	(4,069)
Due from other governmental units	(32,814)	-	(32,814)
Accounts payable	49,681	70,630	120,311
Accrued liabilities	11,332	901	12,233
Due to other funds	-	-	-
Due to other governmental units	-	(51,254)	(51,254)
Net Cash Provided By Operating Activities	<u>\$ 129,578</u>	<u>\$ 99,591</u>	<u>\$ 229,169</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 3,011</u>
 LIABILITIES:	
Undistributed taxes	<u>\$ 3,011</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Algonac, Michigan, was incorporated December 6, 1967, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

DISCRETELY PRESENTED COMPONENT UNIT – The City of Algonac Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is controlled by an eleven member council, who are appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Algonac City Council.

JOINT VENTURES - The Downriver Recreation Commission was organized for the purpose of providing community services to include educational, vocational and recreational aspects for the residents of the City of Algonac, Township of Clay and the Algonac Community School System. The Commission is dependent upon these entities for its existence as they jointly provide annual financial resources for its operation. The joint venture was made March 25, 1991 pursuant to the Authority granted by the Urban Cooperation Act of 1967, being MCL 124.501 and by Authority granted by MCL 124.531.

The Commission is a separate legal and administrative entity with nine commission members, three each appointed by the City of Algonac, Clay Township and Algonac Community Schools.

The City of Algonac appropriates funds annually to assist with the day-to-day operations of the Commission. For the year ended June 30, 2004, the City of Algonac appropriated \$39,200. Complete financial statements may be obtained from the administrative offices of the Algonac Middle School, 9185 Marsh Road, Algonac, MI 48001.

RELATED ORGANIZATIONS - The Algonac Housing Authority (AHA), is a related organization as the City Commission appoints the board of the AHA, but it is not financially accountable.

There were no related party transactions between the City of Algonac and the Housing Authority for the fiscal year ended June 30, 2004.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – is a special revenue fund used to account for Act 51 money and other related revenues restricted for major street construction and maintenance of major streets.

The City reports the following major proprietary funds:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Sewer Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the City reports the following fund types –

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Capital Projects Funds – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

Agency Fund – is used to account for assets held by the City as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds are charges to customers for sale and services. Operating expenses from Enterprise Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are recorded at fair value. For the purpose of the Statement of Cash Flows presented for the Proprietary Fund Type, the City considers all highly liquid investments (including restricted assets) with original maturities of ninety days or less to be cash equivalents.

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property the receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property Tax Calendar –

The City's property tax is levied as of July 1 on the assessed valuation of property located in the City as of the preceding December 31. The taxes are due on August 31 with final collection date as of February 28, after which they are added to the delinquent tax roll. The city also collects taxes for the County, Intermediate School District, Community College and Local School District. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

	Primary <u>Government</u>
Buildings and improvements	10-50
Utility systems	5-50
Machinery and equipment	5-10
Vehicles	8-15
Infrastructure	10-20

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

- 1) Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A Public Hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 15, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General Fund and the Major and Local Street (Special Revenue) Funds.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

- 4) Any amendments to the budget must be approved by City Council.
- 5) Budget appropriations lapse at year end.
- 6) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
- 7) Budgeted amounts are reported as originally adopted, or as amended by the City Council during the year. Individual amendments were not material in relation to the original appropriation.

The legally approved budgets of the City for the General and Special Revenue funds were adopted at the activity level. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
General Government –			
City Clerk	\$ 82,151	\$ 92,982	\$ 10,831
Public Safety –			
Police department	720,971	751,462	30,491
Recreation and Cultural –			
Parks and recreation	130,166	138,424	8,258
Special Revenue –			
Major Street Fund –			
Construction	750,000	770,214	20,214
Administrative/Engineering	18,335	21,524	3,189
Local Street Fund –			
Administrative/Engineering	7,186	9,082	1,896

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2004, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>	<u>Total</u>
Deposits -				
Cash on hand –				
Petty Cash	\$ 750	\$ -	\$ -	\$ 750
Deposits with Financial Institutions -				
Checking/Money Market	689,166	3,011	18,617	710,794
Savings/Certificates of Deposit	<u>33,801</u>	<u>-</u>	<u>-</u>	<u>33,801</u>
Total Deposits	723,717	3,011	18,617	745,345
Investments -				
Investment Trust Funds	<u>2,666,942</u>	<u>-</u>	<u>-</u>	<u>2,666,942</u>
	<u>3,390,659</u>	<u>3,011</u>	<u>18,617</u>	<u>3,412,287</u>

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>	<u>Total</u>
Reconciliation To Combined Balance Sheet				
Reported as Cash and Cash Equivalents -				
Petty Cash	\$ 750	\$ -	\$ -	\$ 750
Cash in Checking/Money Market	689,166	3,011	18,617	710,794
Investment Trust Funds	<u>2,666,942</u>	<u>-</u>	<u>-</u>	<u>2,666,942</u>
Total Cash and Cash Equivalents	3,356,858	3,011	18,617	3,378,486
Reported as Investments -				
Certificates of Deposits	<u>33,801</u>	<u>-</u>	<u>-</u>	<u>33,801</u>
	<u>\$ 3,390,659</u>	<u>\$ 3,011</u>	<u>\$ 18,617</u>	<u>\$ 3,412,287</u>

Deposits –

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2004 the bank balance of the City's deposits were \$758,811 of which \$133,801 was FDIC insured with the balance \$624,010 uninsured and uncollateralized.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

City investments may be classified into three categories to give an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the City's name.

As of June 30, 2004, the City has \$2,666,942 invested in Investment Trust Funds which are managed by a bank's trust department as investments of the primary government. The trust invests primarily in short-term maturity U.S. Government backed or guaranteed securities which are held by the trust in its name. These funds have not been considered to be susceptible to investment risk categories. The investment trusts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The compensation of interfund balances as of June 30, 2004 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds-		
General Fund	Water Fund	<u>\$ 42,488</u>
Advance To/From Other Funds –		
General Fund	Sewer Fund	<u>\$ 283,702</u>
Transfers From/To Other Funds		
<u>Transfers Into Fund</u>	<u>Transfers Out of Fund</u>	
Major Street	Local Street	<u>\$ 4,280</u>

NOTE 5 – CAPITAL ASSETS:

Capital asset activity of the primary government for the year ended June 30, 2004 was as follows:

	<u>July 1, 2003</u>	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
					<u>Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 310,559	\$ -	\$ -	\$ -	\$ 310,559
Construction in progress	-	464,241	-	-	464,241
Total capital assets, not being depreciated	<u>310,559</u>	<u>464,241</u>	<u>-</u>	<u>-</u>	<u>774,800</u>
Capital assets, being depreciated:					
Buildings and improvements	2,242,955	36,463	-	-	2,279,318
Infrastructure	75,728	302,116	-	-	377,844
Machinery and equipment	320,758	39,467	-	-	360,225
Vehicles	<u>1,718,455</u>	<u>34,308</u>	<u>80,424</u>	<u>-</u>	<u>1,672,339</u>
Total capital assets being depreciated	<u>4,357,796</u>	<u>412,354</u>	<u>80,424</u>	<u>80,424</u>	<u>4,689,726</u>

NOTE 5 – CAPITAL ASSETS – (cont'd):

	July 1, 2003 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2004 <u>Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 87,876	\$ 80,873	\$ -	\$ 952,749
Infrastructure	75,728	7,553	-	83,281
Machinery and equipment	255,261	15,232	-	270,493
Vehicles	<u>1,475,325</u>	<u>69,499</u>	<u>80,424</u>	<u>1,464,400</u>
Total accumulated depreciation	<u>2,678,190</u>	<u>173,157</u>	<u>80,424</u>	<u>2,770,923</u>
Total capital assets being depreciated, net	<u>1,679,606</u>	<u>239,197</u>	<u>-</u>	<u>1,918,803</u>
Governmental activities capital assets, net	<u>\$1,990,165</u>	<u>\$ 239,197</u>	<u>\$ -</u>	<u>\$2,693,603</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	<u>\$ 483,009</u>	<u>\$ 445,746</u>	<u>\$ -</u>	<u>\$ 928,755</u>
Capital assets, being depreciated:				
Machinery and equipment	243,280	27,115	-	270,395
Water plant, mains, hydrants and service lines	1,1632,493	25,912	5,180	11,653,225
Sewer plant, mains and service sewers	<u>4,089,709</u>	<u>36,754</u>	<u>-</u>	<u>4,121,463</u>
Total capital assets being depreciated	<u>15,960,482</u>	<u>89,781</u>	<u>5,180</u>	<u>16,045,083</u>
Less accumulated depreciation for:				
Machinery and equipment	\$ 222,034	\$ 6,057	\$ -	\$ 228,091
Water plant, mains, hydrants and service lines	1,994,817	251,641	5,180	2,241,278
Sewer plant, mains and service sewers	<u>2,108,688</u>	<u>82,134</u>	<u>-</u>	<u>2,190,822</u>
Total accumulated depreciation	<u>4,325,539</u>	<u>339,832</u>	<u>5,180</u>	<u>4,660,191</u>
Total capital assets being depreciated, net	<u>11,634,943</u>	<u>(250,051)</u>	<u>-</u>	<u>11,384,892</u>
Business activities capital assets, net	<u>\$12,117,952</u>	<u>\$ 195,695</u>	<u>\$ -</u>	<u>\$12,313,647</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 15,978
Public Safety	65,990
Public Works	29,168
Recreation and Cultural	<u>62,021</u>
Total depreciation expense-governmental activities	<u>\$ 173,157</u>
Business-type activities:	
Sewer	\$ 84,876
Water	<u>254,956</u>
Total depreciation expense-business-type activities	<u>\$ 339,832</u>

NOTE 6 – LONG-TERM LIABILITIES:

The following is a summary of changes in the long-term liabilities (including current portions) of the Primary Government for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Fund -					
Copier lease	\$ 5,148	\$ -	\$ 2,112	\$ 3,036	\$ 2,560
Capital lease payable	-	34,308	12,021	22,287	10,862
Accrued sick and vacation	96,164	12,305	-	108,469	-
Total Governmental Funds	<u>101,312</u>	<u>46,613</u>	<u>14,133</u>	<u>133,792</u>	<u>13,422</u>
<u>Business-type activities:</u>					
Water Supply System Revenue					
Bonds	\$ 265,000	\$ -	\$ 11,000	\$ 254,000	\$ 12,000
1998 Water Supply System/					
Contracts Payable	2,582,100	-	123,750	2,458,350	127,500
Accrued vacation and sick payable	34,138	11,518	-	45,656	-
1967 Sewer Disposal System					
Bonds/Contracts Payable	140,000	-	140,000	-	-
1999 Sewage Disposal System					
Bonds/Contracts Payable	319,022	-	29,002	290,020	30,708
2003 Sewage Disposal System					
Bonds/Contracts Payable	900,000	-	27,000	873,000	28,500
	<u>4,240,260</u>	<u>11,518</u>	<u>330,752</u>	<u>3,921,026</u>	<u>198,708</u>
	<u>\$ 4,341,572</u>	<u>\$ 58,131</u>	<u>\$ 344,885</u>	<u>\$ 4,054,818</u>	<u>\$ 212,130</u>

Significant details regarding outstanding long-term liabilities (including current portion) are presented below:

Revenue Bonds --

Water Supply System Revenue Series II Bond, dated May 1, 1964, due in annual installments ranging from \$12,000 to \$24,000 through March 1, 2019, with interest of 5%, payable semi-annually

\$ 254,000

NOTE 6 – LONG-TERM LIABILITIES – (cont'd):

Water Supply and Sewage Disposal System – Contracts Payable –

St. Clair County has issued three General Obligation Bonds for the purpose of expanding the systems and treatment facilities in the City of Algonac.

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the City of Algonac and other applicable municipalities and the County of St. Clair have entered into contracts whereby the City has agreed to pay the County annual installments to retire the City's portion of the various bond issues, plus interest. In order to pay such amounts to the County, the City and other applicable municipalities are obligated, to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the City Council to pay the City's portion of the obligation from tax levies, debt retirement charges and operating revenue. The contract payables recorded in the Enterprise Fund (Water and Sewer Fund) are comprised of the following:

The City of Algonac upgraded and made various improvements to its Water Filtration Plant. In order to finance the cost of the improvements the St. Clair County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of \$7,830,600. Through contracts with the City of Algonac and Clay Township, the City is required to repay 37.5% of the loan including interest and the Township 62.5%. As of June 30, 2004 the outstanding loan at the County is \$6,555,600. \$ 2,458,350

General obligation bonds, dated November 1, 1999, in the amount of \$2,160,000 were sold for the purpose of constructing improvements and new pump stations for the St. Clair County Sewage Disposal System No. I, which serves the City of Algonac, the Township of Clay and the Township of Ira. The City of Algonac, (17.06%), Clay Township (43.28%) and Ira Township (39.66%) repay their respective share of principle and interest. The City of Algonac share ranges from \$30,708 to \$40,091 through April 1, 2012, plus interest ranging from 5.0 to 5.125%, payable semi-annually \$ 290,020

\$3,000,000 were sold for the purpose of paying costs of construction of sewage disposal system improvements to service the City of Algonac, the Township of Clay and the Township of Ira. The City of Algonac, (30.00%), Clay Township (35.00%) and Ira Township (35.00%) repay their respective share of principle and interest. The City of Algonac share ranges from \$28,500 to \$69,000 through April 1, 2023, plus interest ranging from 3.375% to 4.6%, payable semi-annually 873,000
\$ 1,163,020

NOTE 6 – LONG-TERM LIABILITIES – (cont'd):**Copier Lease –**

The City has entered into a capital lease to finance the purchase of a copier. See Note 7 for additional information.

\$ 3,036

Capital Lease –

The City has entered into a capital lease to finance the purchase of two policy cars. See Note 7 for additional information

\$ 22,287

The annual requirements to amortize long-term liabilities outstanding at June 30, 2004, including interest payments of \$1,253,063 are as follows:

Year	Water Supply System Revenue Bonds		Sewer Disposal System Bonds		Drinking Water Revolving Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 127,500	\$ 59,865	\$ 59,208	\$ 48,250	\$ 12,000	\$ 12,700
2006	129,375	56,654	62,414	45,710	12,000	12,100
2007	133,125	53,373	65,620	43,035	13,000	11,500
2008	136,875	49,829	68,826	40,223	14,000	10,850
2009	140,625	46,529	72,032	37,275	15,000	10,150
2010-2014	751,875	177,708	320,420	141,389	90,000	38,500
2015-2019	855,000	77,466	256,500	90,079	98,000	13,500
2020-2024	183,975	2,300	258,000	29,730	-	-
	<u>\$2,458,350</u>	<u>\$523,724</u>	<u>\$1,163,020</u>	<u>\$ 475,691</u>	<u>\$ 254,000</u>	<u>\$ 109,300</u>

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City of Algonac, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the fund financial statements in the Water and Sewer Fund, and the Governmental Activities in the amounts of \$45,656 and \$108,469, respectively at June 30, 2004.

NOTE 7 – CAPITAL LEASES:

The City has entered into lease purchase agreements to finance the acquisition of office equipment and two police cars. The lease agreement qualifies as a capital lease for accounting purposes (agreement provides for a bargain purchase option at end of the lease term) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

Commitments under this lease agreement provides for minimum annual payments as follows:

Office Equipment

Year Ending June 30,	Principal	Interest	Total
2005	\$ 2,560	\$ 369	\$ 2,929
2006	476	12	488
	<u>\$ 3,036</u>	<u>\$ 381</u>	<u>\$ 3,417</u>

NOTE 7 – CAPITAL LEASES – (cont'd):**Police Cars**

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 10,861	\$ 1,159	\$ 12,020
2006	11,426	594	12,020
	<u>\$ 22,287</u>	<u>\$ 1,753</u>	<u>\$ 24,040</u>

NOTE 8 - EMPLOYEE PENSION PLAN:**Plan Description -**

The City of Algonac participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The City is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2004 ranged from 4.0% to 9.80%. The contribution requirements of plan members and the City are established and may be amended by the City Council, depending on the MERS contribution program adopted by the City.

Annual Pension Costs -

For the year ended June 30, 2004 the City's annual pension cost of \$90,152 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending June 30.</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2002	\$ 71,628	100 %	\$ -
2003	86,896	100	-
2004	90,152	100	-

NOTE 8 - EMPLOYEE PENSION PLAN – (cont'd):**Schedule of Funding Progress**

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2001	1,822,813	2,175,559	352,746	84	1,130,540	31
2002	2,031,504	2,446,909	415,405	83	1,181,891	35
2003	2,332,706	2,802,226	469,520	83	1,295,468	36

NOTE 9 - RISK MANAGEMENT:**General Liability**

The City participates in the Michigan Municipal Risk Management Authority Liability and Property Pool liability insurance program. The City carries \$5,000,000 of liability coverage with a \$250 per claim deductible vehicle, crime and property.

Workers' Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

NOTE 10 – RESTRICTED ASSETS:

As of June 30, 2004 the City had the following assets restricted for specific purposes:

Water Fund –

Per ordinance 151 – cash restricted for asset replacement and debt service	\$ 45,700
Debt retirement	135,546
Capital improvement/replacement	167,831
Deposit with DPW	<u>1,877</u>
	<u>350,954</u>

Sewer Fund –

Debt retirement	133,849
Deposit with St. Clair County for sewer improvements	26,001
Deposit with St. Clair County Waste Water Treatment Plant	<u>42,816</u>
	<u>202,666</u>
	<u>\$ 553,620</u>

NOTE 11 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance –

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of the reserved fund balance at June 30, 2004:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Inventory	\$ 395
	Prepaid Expense	39,916
	Advance to Other Funds	<u>283,702</u>
		324,013
Local Street Fund	Capital Improvement	<u>27,661</u>
		<u>\$ 351,674</u>

Designated Fund Balance –

The City Council has the power to designate or set aside all or a portion of unreserved Fund Balance for specific purposes. The following is a summary of Council designated Fund Balance at June 30, 2004:

General Fund –		
Library	\$	16,109
Fire truck		45,288
Drug forfeiture		2,349
Police Training		1,826
Litigation		28,000
Tax Tribunal		18,000
Emergency Services		5,000
Memorial/Gazebo		1,070
Unemployment		7,197
Historical Preservation		205,714
Retiree Health Benefits		<u>25,000</u>
	\$	<u>355,553</u>

Reserved Retained Earning –

Retained Earnings have been reserved in various proprietary type funds to indicate that portions of Retained Earnings are restricted for specific purposes. The following is a summary of Reserved Retained Earnings for all Proprietary Funds at June 30, 2004:

Water Fund –		
Capital Improvement/Asset Replacements	\$	<u>202,708</u>

NOTE 11 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS – (cont'd):

Designated Retained Earnings –

The City Council has the power to designate or set aside all or a portion of Unreserved Retained Earnings for specific purposes. The following is a summary of council's designated retained earnings at June 30, 2004:

Water Fund –	
Water Tower	\$ 30,000
Pick up Truck	4,500
Sewer Fund –	
Equipment Replacement	6,000
Pick up truck	<u>4,500</u>
	<u>\$ 45,000</u>

NOTE 12 – SEWAGE DISPOSAL SYSTEM AGREEMENT:

In accordance with an agreement signed November 1976, the County acquired legal ownership of the City of Algonac Sewage Disposal System and, as of July 14, 1977, assumed responsibility for administering, operating, and maintaining the system. The City has agreed to pay the County charges sufficient to provide from the City's share of expenses incurred by the County and to provide for future maintenance, repairs and replacement.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS/RESTATEMENT:

A prior period adjustment of \$96,575 was made to the General Fund to recognize non-exchange state shared revenues collected within 90 days. In addition, a prior period adjustment was made to the General Fund for \$19,467 to record prepaid insurance which was recorded under the purchase method in prior years. In addition a prior period adjustment was made to decrease the Water Fund net assets in the amount of \$167,392 to remove the receivable from Clay Township for the equipment replacement reserve.

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

NOTE 13 – PRIOR PERIOD ADJUSTMENT/RESTATEMENT – (cont'd):

The more significant of the changes required by the new standards include:

- Management's discussion and analysis
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to net assets at June 30, 2003:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of general and special revenue funds as of 6/30/03	\$ 2,721,034
Prior period adjustment	<u>116,042</u>
	2,837,076
Add: capital assets	4,668,355
Less: accumulated depreciation on capital assets	(2,678,190)
Less: capital lease	(5,148)
Less: accrued compensated absences	<u>(96,164)</u>
	<u>\$ 4,725,929</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALGONAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,177,626	\$ 1,179,073	\$ 1,190,522	\$ 11,449
Licenses and permits	42,315	43,175	40,886	(2,289)
Intergovernmental -				
State	504,025	488,332	450,235	(38,097)
Local	31,107	47,107	47,667	560
Charges for services	217,872	222,422	239,196	16,774
Fines and forfeits	20,945	21,845	16,961	(4,884)
Interest and rents	118,306	125,252	79,716	(45,536)
Other	41,450	45,628	46,769	1,141
	<u>2,153,646</u>	<u>2,172,834</u>	<u>2,111,952</u>	<u>(60,882)</u>
Expenditures:				
General Government -				
City Council	21,420	21,420	16,341	5,079
City Manager	90,320	90,320	79,375	10,945
Elections	17,660	17,660	3,820	13,840
City Clerk	82,151	82,151	92,982	(10,831)
Finance department	191,502	182,257	156,067	26,190
General administration	113,946	122,055	97,647	24,408
Data processing department	15,000	15,000	10,317	4,683
Property tax services	6,300	6,300	4,636	1,664
Assessor	23,678	23,678	22,908	770
City Hall and grounds	175,963	175,963	140,540	35,423
	<u>737,940</u>	<u>736,804</u>	<u>624,633</u>	<u>112,171</u>
Less: Reimbursement from other funds	<u>(245,200)</u>	<u>(244,230)</u>	<u>(253,445)</u>	<u>9,215</u>
Total General Government	<u>492,740</u>	<u>492,574</u>	<u>371,188</u>	<u>121,386</u>
Public Safety -				
Fire department	269,459	300,814	291,199	9,615
Police department	720,971	720,971	751,462	(30,491)
Inspections	137,161	137,161	127,197	9,964
Planning Commission	52,070	52,070	5,826	46,244
Zoning Board of Appeals	700	700	531	169
	<u>1,180,361</u>	<u>1,211,716</u>	<u>1,176,215</u>	<u>35,501</u>
Public Works -				
Department of public works	<u>558,585</u>	<u>558,585</u>	<u>525,453</u>	<u>33,132</u>
Recreation and Cultural -				
Parks and recreation	91,048	130,166	138,424	(8,258)
Other cultural	30,000	30,000	23,056	6,944
	<u>121,048</u>	<u>160,166</u>	<u>161,480</u>	<u>(1,314)</u>

CITY OF ALGONAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Expenditures	\$ 148,358	\$ 155,916	\$ 120,689	\$ 35,227
Debt Service -				
Principal	14,133	14,133	14,133	-
Interest	817	817	817	-
	<u>14,950</u>	<u>14,950</u>	<u>14,950</u>	<u>-</u>
Total Expenditures	<u>2,516,042</u>	<u>2,593,907</u>	<u>2,369,975</u>	<u>223,932</u>
Excess of revenues under expenditures	<u>(362,396)</u>	<u>(421,073)</u>	<u>(258,023)</u>	<u>163,050</u>
Other Financing Sources:				
Capital lease proceeds	-	-	34,308	34,308
Transfers in	15,000	15,000	-	(15,000)
	<u>15,000</u>	<u>15,000</u>	<u>34,308</u>	<u>19,308</u>
Excess of revenues and other sources under expenditures	<u>(347,396)</u>	<u>(406,073)</u>	<u>(223,715)</u>	<u>182,358</u>
Fund Balance at beginning of year	1,937,144	1,937,144	1,937,144	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>116,042</u>	<u>116,042</u>
Fund Balance at beginning of year as restated	<u>1,937,144</u>	<u>1,937,144</u>	<u>2,053,186</u>	<u>116,042</u>
Fund Balance at end of year	<u>\$ 1,589,748</u>	<u>\$ 1,531,071</u>	<u>\$ 1,829,471</u>	<u>\$ 298,400</u>

CITY OF ALGONAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental -				
State - Act 51	\$ 183,352	\$ 194,000	\$ 207,243	\$ 13,243
Federal	573,363	573,363	464,241	(109,122)
Interest	10,000	3,941	3,976	35
Total Revenues	<u>766,715</u>	<u>771,304</u>	<u>675,460</u>	<u>(95,844)</u>
Expenditures:				
Public Works-				
Construction	750,000	750,000	770,214	(20,214)
Routine Maintenance	43,087	43,087	38,699	4,388
Bridge Maintenance	3,832	3,832	29	3,803
Traffic Services Maintenance	5,797	5,797	5,083	714
Winter Maintenance	14,844	14,844	11,353	3,491
Administration/Engineering	18,335	18,335	21,524	(3,189)
Total Expenditures	<u>835,895</u>	<u>835,895</u>	<u>846,902</u>	<u>(11,007)</u>
Excess of revenues under expenditures	(69,180)	(64,591)	(171,442)	(106,851)
Other Financing Sources:				
Transfers in	<u>-</u>	<u>4,280</u>	<u>4,280</u>	<u>-</u>
Excess of revenues and other sources under expenditures	(69,180)	(60,311)	(167,162)	(106,851)
Fund Balance at beginning of year	<u>370,316</u>	<u>370,316</u>	<u>370,316</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 301,136</u>	<u>\$ 310,005</u>	<u>\$ 203,154</u>	<u>\$(106,851)</u>

SUPPLEMENTARY INFORMATION

CITY OF ALGONAC, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	
ASSETS	<u>Local Street</u>	<u>Capital Improvement</u>	<u>Total</u>
Cash and cash equivalents	\$ 395,539	\$ 27,661	\$ 423,200
Due from other governmental units - State	<u>13,889</u>	<u>-</u>	<u>13,889</u>
Total Assets	<u>\$ 409,428</u>	<u>\$ 27,661</u>	<u>\$ 437,089</u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 5,090	\$ -	\$ 5,090
Accrued liabilities	<u>67</u>	<u>-</u>	<u>67</u>
Total Liabilities	<u>5,157</u>	<u>-</u>	<u>5,157</u>
Fund Balance:			
Reserved -	-	27,661	27,661
Unreserved -			
Undesignated	<u>404,271</u>	<u>-</u>	<u>404,271</u>
Total Fund Balance	<u>404,271</u>	<u>27,661</u>	<u>431,932</u>
Total Liabilities and Fund Balance	<u>\$ 409,428</u>	<u>\$ 27,661</u>	<u>\$ 437,089</u>

CITY OF ALGONAC, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Special Revenue Fund	Capital Projects Fund	
	Local Street	Capital Improvement	Total
Revenues:			
Intergovernmental -			
Federal/State	\$ 94,092	\$ -	\$ 94,092
Interest and rent	3,159	243	3,402
Total Revenues	<u>97,251</u>	<u>243</u>	<u>97,494</u>
Expenditures:			
Current -			
Public Works	74,856	-	74,856
Total Expenditures	<u>74,856</u>	<u>-</u>	<u>74,856</u>
Excess of revenues over expenditures	22,395	243	22,638
Other Financing Uses:			
Transfers out	(4,280)	-	(4,280)
Excess of revenues over expenditures and other uses	18,115	243	18,358
Fund Balances at beginning of year	<u>386,156</u>	<u>27,418</u>	<u>413,574</u>
Fund Balances at end of year	<u>\$ 404,271</u>	<u>\$ 27,661</u>	<u>\$ 431,932</u>

CITY OF ALGONAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LOCAL STREET FUND
FOR THE YEARS ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State - Act 51	\$ 71,858	\$ 76,088	\$ 81,725	\$ 5,637
State - Metro Act	-	-	12,367	12,367
Interest	15,000	3,200	3,159	(41)
Total Revenues	86,858	79,288	97,251	17,963
Expenditures:				
Public Works				
Construction	117,000	117,000	16,577	100,423
Routine Maintenance	26,719	26,719	25,949	770
Bridge Maintenance	12,082	12,082	5,628	6,454
Traffic Services Maintenance	5,632	5,632	3,509	2,123
Winter Maintenance	17,781	17,781	14,111	3,670
Administration/Engineering	7,186	7,186	9,082	(1,896)
Total expenditures	186,400	186,400	74,856	111,544
Excess of revenues over (under) expenditures	(99,542)	(107,112)	22,395	129,507
Other Financing Uses:				
Transfers out	(4,280)	(4,280)	(4,280)	-
Excess of revenues over (under) expenditures and other uses	(103,822)	(111,392)	18,115	129,507
Fund Balance at beginning of year	386,156	386,156	386,156	-
Fund Balance at end of year	\$ 282,334	\$ 274,764	\$ 404,271	\$ 129,507

CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

CITY OF ALGONAC, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets:				
Cash and cash equivalents	\$ 14,130	\$ 4,145,700	\$ 4,156,819	\$ 3,011
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Liabilities:				
Undistributed taxes	4,204	4,128,934	4,130,127	3,011
Due to other funds	3,305	39,378	42,683	-
Accrued liabilities	<u>6,621</u>	<u>3,950</u>	<u>10,571</u>	<u>-</u>
Total Liabilities	<u>\$ 14,130</u>	<u>\$ 4,172,262</u>	<u>\$ 4,183,381</u>	<u>\$ 3,011</u>

COMPONENT UNIT

CITY OF ALGONAC, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2004

ASSETS

Current Assets:

Cash and cash equivalents	<u>\$ 18,617</u>
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FUND BALANCE

Fund Balance:

Unreserved -	
Undesignated	<u>\$ 18,617</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 15,348	\$ 12,683	\$(2,665)
Interest	800	89	(711)
	16,148	12,772	(3,376)
Expenditures:			
Public Works -			
Miscellaneous	1,300	652	648
Capital projects	17,875	-	17,875
	19,175	652	18,523
Excess of revenues over expenditures	(3,027)	12,120	15,147
Fund Balance at beginning of year	6,497	6,497	-
Fund Balance at end of year	\$ 3,470	\$ 18,617	\$ 15,147



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Algonac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit; each major fund, and the aggregate remaining fund information of the City of Algonac, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City of Algonac, Michigan's basic financial statements and have issued our report thereon dated September 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Algonac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Algonac, Michigan, in a separate letter dated September 24, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Algonac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Algonac, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

All bank accounts should be reconciled on a monthly basis.

During our audit we noted that the payroll bank account had not been reconciled on a monthly basis. Most of the difference was a result of entries not being made between cash and due from (to) other funds. (See recommendation below). To increase controls bank accounts should be reconciled to the general ledger shortly after the end of each month.

Due from (to) other funds should be reconciled on a monthly basis.

As of June 30, 2004 the amounts recorded as due from a particular fund did not always agree to the due to in the offsetting fund. During the audit numerous entries had to be made to agree these amounts. To increase controls we recommend that these accounts be reconciled on a monthly basis.

All balance sheet accounts should be reconciled to subsidiary ledgers and/or detail on a monthly basis.

While testing the various balance sheet accounts it was noted that certain accounts did not always agree to subsidiary ledgers and/or detail records. Some of the accounts that did not agree by significant amounts included prepaid insurance, accounts payable, pension payable and water and sewer accounts receivables.

We recommend that all balance sheet accounts be reconciled to detail on a monthly basis.

Controls over the utility billing could be improved.

At the current time the same individual prepares and mails utility billings, receives cash, and is authorized to make journal entries. To make matters worse, the general ledger and utility accounts receivable ledger was not balanced on a monthly basis. We recommend that the City review the duties and segregate as many of the duties as possible.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Algonac, Michigan in a separate letter dated September 24, 2004.

This report is intended solely for the information and use of management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

September 24, 2004



MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Algonac, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Algonac, Michigan as of and for the year ended June 30, 2004. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in *the Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated September 24, 2004, the conditions described below are not considered reportable conditions or material weaknesses.

The City should investigate whether the Milford Jackson Trust should be reported as a permanent trust fund of the City.

A number of years ago the Estate of Milford Jackson established a trust at a local financial institution with the income to be distributed annually to the City. Although the City has little, if any control over the trust, it appears that the assets technically belong to the City, and therefore should be reported as a permanent trust fund of the City.

We suggest the City consult with the City attorney and the financial institution maintaining the trust to determine if the trust belongs to the City and should be reported as a permanent fund.

The accounts payable and payroll bank account should be maintained on the imprest basis.

During our audit it was noted that the accounts payable and payroll bank accounts are not maintained on the imprest basis. To increase controls we recommend that each account maintain a balance of a certain amount, with the exact amount of the checks transferred into the accounts once they are approved by the City Council. At the end of each month the bank reconciliation should be reconciled to the imprest amount.

The City should adopt a formal electronic fund transfer policy.

Public Act 738 of 2002 authorized and regulates electronic transactions of public funds for governmental units. In particular that act specifies that a local unit should not be party to an ACH arrangement (electronic transactions) unless the governing body of the local unit has adopted a resolution to authorize electronic transaction. The resolution should include the type of transactions where electronic transfers are allowed, the documentation required, the approval process, etc.

We recommend that if the City Council is going to allow electronic fund transfers, that a formal policy be adopted.

The City needs to review the equipment replacement amount required for the Water Fund and transfer the required 2004 amount to the restricted account.

As you know, the DEQ requires as part of the drinking water loan program that the City maintain an equipment replacement fund for the Water Plant. The City has established a equipment replacement account however the 2004 amount needs to be transferred to this account. Also, the City Council should consider whether the rates need to be increased to set aside these funds each year.

This report is intended solely for the information and use of management, the City of Council, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script that reads "Stewart, Beavers & Whipple".

September 24, 2004